



Security Council

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Letter dated 17 October 2005 from the Secretary-General addressed to the President of the Security Council

I write further to my letter of 8 August 2005 to the President of the Security Council and the letter dated 19 August 2005 from the President of the Security Council to me.

I have the honour to inform you that based on the 19 August 2005 letter of the President of the Security Council, I asked that consultations be conducted by the Secretariat with the relevant authorities of the Government of Iraq on the termination of the ongoing operations of the oil-for-food programme. These consultations were undertaken in the context of a full recognition of the need to ensure that ongoing projects initiated under the oil-for-food programme could be brought to a successful conclusion, while at the same time there could be full compliance with the provisions of Security Council resolution 1483 (2003).

The Controller met the relevant authorities of the Government of Iraq in Amman, Jordan on 3 October 2005, bearing in mind the timetable envisaged in my letter of 8 August 2005. Consequently, I am providing in the attached note an update on the situation with respect to the letters of credit and am proposing a possible course of action for the Council's consideration.

(Signed) Kofi A. Annan



Annex

Note by the Secretary-General on arrangements for terminating the operations relating to the letters of credit raised against the United Nations Iraq Account (Security Council resolution 1483 (2003))

(Follow-up to the letter dated 19 August 2005 from the President of the Security Council addressed to the Secretary-General)

1. As I indicated in the annex to my letter of 8 August 2005, funding was retained for 549 letters of credit that were reported by the bank as open. Subsequent to my letter of 8 August 2005, 44 letters of credit have been paid, 17 were reinstated for the purpose of making payments and two were cancelled.
2. As I also indicated in the annex to my letter of 8 August 2005 (para. 5), the slow payment to suppliers is a result of the slow processing of the authentication documents for the arrival of goods in Iraq. The rate of processing has not improved since my last letter to the President of the Council. Neither the United Nations Secretariat nor the bank holding letters of credit can make any payment arrangements in the absence of authentication documents.

Letters of credit that had expired by 31 December 2004

3. I indicated in paragraph 7 of the annex to my letter of 8 August 2005 that the cash collateral supporting the 249 letters of credit that had expired by 31 December 2004 would continue to be retained in the United Nations Iraq Account until 30 November 2005 to allow payment to be made to vendors should authentication documents be received confirming that the goods were shipped during the validity period of the letter of credit. However, during recent consultations with the relevant authorities, the Government of Iraq asked for an extension of this deadline for receipt of authentication documents to 31 December 2005 so as to allow them additional time for processing.
4. In addition, the relevant authorities have also asked for an extension of the validity period of 46 letters of credit with a total value of \$56 million in order for the buyers in Iraq to obtain all the materials needed to complete projects that are in progress (see table 1). These are cases where partial shipment took place but for which full delivery of the goods is needed to complete the projects — hence the need to extend the shipment dates and the expiry dates of the 46 associated letters of credit until 19 June 2006.
5. Given the limitations on the ground, the urgency of these projects and the current situation in Iraq, in the absence of any objection from the Council, I intend to concur with the above requests.

Letters of credit expiring in 2005

6. I also indicated in paragraph 8 of the annex to my letter of 8 August 2005 that the United Nations would reinstate or extend the validity period of letters of credit for any of the letters of credit expiring in 2005. They now number 246. I also indicated that letters of credit would be extended for up to 10 months from the current expiry date. Upon further consideration, I have determined that this

10-month period would best start from the date of the authorizing letter from the Security Council, namely 19 August 2005.

7. The United Nations has so far received from the relevant authorities of the Government of Iraq requests for amendments to 81 letters of credit that extend the shipment dates and the expiry dates of the letters of credit. The relevant authorities have requested that the deadline of 31 October 2005 for the formal request of amendments by the Government of Iraq be moved to 31 December 2005 in order to take fully into account communication problems between the relevant authorities and the suppliers for extensions of the shipment date and the validity of letters of credit.

8. In the absence of any objection from the Council, I intend to proceed as set out above.

Letters of credit due to expire in 2006 and 2007

9. I indicated in paragraph 9 of the annex to my letter of 8 August 2005 that no reinstatements or extensions would be made for the 14 letters of credit that are due to expire in 2006 and 2007. Of those letters of credit, one was fully paid subsequent to my letter of 8 August 2005. In addition, during the consultations of 3 October 2005, the relevant authorities of the Government of Iraq pointed out that some letters of credit which would expire in 2006 were for vital electricity generation and oil infrastructure projects which were very critical to the welfare of the Iraqi people — hence they should be extended to allow completion of those projects. Given the essential nature of those projects, and in the absence of any objection from the Council, I intend to concur with the proposal of the Government of Iraq to extend the nine letters of credit for the periods shown in table 2.

Additional related issues

10. The relevant authorities of the Government of Iraq have also asked for the reinstatement of 40 previously expired and cancelled letters of credit with a total value of 64 million United States dollars in order to pay suppliers for goods that were delivered to Iraq and for which the authentication documents are to be forwarded to the United Nations (see table 3). While the normal practice for the programme has been to close letters of credit 90 days after expiry, because of the difficulties being encountered in the processing of the authentication documents, funding could be made available from the operating reserve of the United Nations Iraq Account to accommodate this request. In the absence of any objection from the Council, I intend to make arrangements for the processing of such payments.

11. The relevant authorities of the Government of Iraq have also brought to my attention eight letters of credit that might require amendment to change the name of the supplier and/or the goods being supplied (see table 4). The relevant authorities indicated that, owing to some factors beyond the control of the Government of Iraq, there was a need to change the supplier and/or the goods that would be delivered to Iraq. The individual reasons for changes are indicated in table 4. Since some of these changes may not be fully consistent with the provisions of Security Council resolution 1483 (2003) for terminating the programme and would require the issuance of new letters of credit, and bearing in mind the individual merits of each case, I recommend that the Council concur with my intention to process only cases 930181, 902035 and 702374.

12. I brought to the attention of the Council, in paragraphs 11 and 13 of the annex to my letter of 8 August 2005, two additional related situations. The first concerned 23 cases where the letters of credit had been closed in accordance with the normal practice and the second concerned 17 cases where the bank had closed the letters of credit. In 13 of these 40 cases, the suppliers have subsequently been paid in full. I urge the Council to reiterate its request to the Government of Iraq to process authentication documents on a timely basis so as to facilitate payment to the suppliers concerned.

Companies which claim delivery

13. In paragraph 4 of the annex to my letter of 8 August 2005, I informed the Council that funding was being retained even after the expiry of some letters of credit because the United Nations Secretariat had cause to believe that goods associated with some of those letters of credit were delivered to Iraq and payments might need to be provided to the vendor. The relevant authorities in Iraq have not yet, however, provided the United Nations with authentication documents necessary for payments to be made to some of the companies claiming to have delivered goods in accordance with the terms and conditions of their letters of credit. This issue now falls under the competence of the Government of Iraq. The Council may wish to urge the responsible authorities to process the authentication documents promptly so that payments can be made to the suppliers of the goods.

Table 1
Request for further shipment on letters of credit that expired in 2004

<i>Communication No.</i>	<i>Letter of credit</i>	<i>Issue date</i>	<i>Expiry date</i>	<i>Status</i>	<i>Currency</i>	<i>Value</i>	<i>US\$ equivalent</i>
930584	L737103	28/10/2002	01/12/2004	Active	EUR	75 288.15	90 490.
830492	C730663	26/09/2001	03/07/2004	Active	EUR	67 153.05	80 712.
631025	Z734374	11/04/2002	05/07/2004	Active	USD	57 166.36	57 166.
1030389	T735614	01/07/2002	12/07/2004	Active	EUR	93 799.99	112 740.
1230032	P738455	12/12/2002	12/10/2004	Active	USD	239 145.39	239 145.
1230448	P739150	31/01/2003	14/06/2004	Active	EUR	1 379 960.00	1 658 605.
1230134	P738454	09/12/2002	17/09/2004	Active	EUR	97 354.29	117 012.
1230159	P738616	23/12/2002	17/11/2004	Active	EUR	197 999.72	237 980.
930512	L751412	11/12/2003	19/06/2004	Active	EUR	29 043.88	34 908.
1230556	P751484	24/11/2003	19/07/2004	Active	EUR	3 000.00	3 605.
830558	M734207	22/05/2002	20/07/2004	Active	GBP	73 856.15	130 257.
1030464	T751365	17/11/2003	20/10/2004	Active	EUR	769 086.90	924 383.
1030158	T751513	24/11/2003	24/06/2004	Active	EUR	129 939.84	156 177.
830227	M727960	12/06/2001	25/11/2004	Active	EUR	45 075.64	54 177.
631023	Z751764	08/01/2004	26/10/2004	Active	USD	140 909.00	140 909.
631028	Z751761	15/01/2004	26/11/2004	Active	USD	672 727.00	672 727.
830896	M751563	01/12/2003	27/04/2004	Active	EUR	10 886.72	13 085.
1230596	P751490	03/12/2003	27/08/2004	Active	EUR	6 500.50	7 813.
830726	C731589	29/08/2005	29/08/2005	Active	EUR	267 309.90	321 285.

<i>Communication No</i>	<i>Letter of credit</i>	<i>Issue date</i>	<i>Expiry date</i>	<i>Status</i>	<i>Currency</i>	<i>Value</i>	<i>US\$ equivalency</i>
830639	M734860	13/06/2002	30/11/2004	Active	EUR	16 010.00	19 242.79
830330	C729335	30/07/2001	30/11/2004	Active	EUR	264 431.33	317 826.12
1030568	T735765	27/06/2002	31/08/2004	Active	EUR	62 986.35	75 704.75
830077	C730889	05/10/2001	31/10/2004	Active	EUR	110 703.97	133 057.66
1030451	T735631	25/06/2002	31/10/2004	Active	EUR	42 093.67	50 593.35
1030463	T734293	10/04/2002	31/12/2004	Active	EUR	1 944 760.00	2 337 451.92
731060	U750873	04/04/2003	05/07/2004	Active	EUR	9 900.00	11 899.04
1230558	P750349	12/03/2003	10/06/2004	Active	EUR	4 812.10	5 783.77
1230056	P738838	31/12/2002	04/08/2004	Active	EUR	25 167.00	30 248.80
800783	C727202	14/05/2001	17/09/2004	Active	EUR	2 110 290.91	2 536 407.34
1000226	T731031	11/10/2001	30/10/2004	Active	JPY	193 423 750.00	1 711 714.60
702556	U726050	23/02/2001	01/02/2004	Active	EUR	1 060 085.00	1 274 140.63
1000840	T734819	06/06/2002	30/04/2004	Active	EUR	72 201.82	86 781.03
901583	L733643	01/03/2002	15/02/2004	Active	EUR	171 825.00	206 520.43
631023	Z751764	08/01/2004	26/10/2004	Active	USD	140 909.00	140 909.00
631025	Z734374	11/04/2002	05/07/2004	Active	USD	57 166.36	57 166.36
631028	Z751761	15/01/2004	26/11/2004	Active	USD	672 727.00	672 727.00
1230448	P739150	31/01/2003	14/06/2004	Active	EUR	1 379 960.00	1 658 605.77
731024	U737646	16/10/2002	03/08/2004	Active	EUR	1 743 368.80	2 095 395.19
1030021	T733888	18/03/2002	27/09/2004	Active	EUR	608 397.42	731 246.90
1030728	T735299	14/06/2002	23/09/2004	Active	EUR	19 895 105.31	23 912 386.19
1001242	T733785	13/05/2002	15/12/2003	Active	EUR	60 760.64	73 029.62
1200840	P738507	17/12/2002	21/07/2004	Active	USD	1 107 792.00	1 107 792.00
1300342	B750908	07/04/2003	07/11/2004	Active	EUR	598 115.99	718 889.41
1000942	T732391	18/12/2001	02/01/2004	Active	EUR	6 145 445.90	7 386 353.25
1200370	P738022	22/11/2002	30/09/2004	Active	EUR	2 193 539.00	2 636 465.14
601909	Z727261	07/05/2001	31/12/2004	Active	USD	796 254.00	796 254.00
Total				46 letters of credit		55 837 776.63	

Table 2
Letters of credit that are due to expire in 2006

Communication No.	Letter of credit	Issue date	Expiry date	New expiry date	Currency	Value	US\$ equivalency
1200853	P738659	17/12/2002	15/04/2006	15/04/2007	CHF	52 704 075.17	40 855 872.22
601654	Z725037	05/01/2001	15/01/2006	15/01/2007	USD	33 745 562.86	33 745 562.86
801479	C733847	13/03/2002	15/04/2006	15/04/2007	CHF	53 286 353.10	41 307 250.47
901749	L732684	15/05/2002	15/04/2006	15/04/2007	CHF	3 343 042.15	2 591 505.54
930480	L731945	28/11/2001	31/01/2006	31/12/2006	EUR	5 844 562.73	7 024 714.82
601799	Z719838	25/05/2000	23/03/2006	31/12/2006	USD	14 968 566.24	14 968 566.24
900991	L751810	18/01/2005	11/01/2006	31/12/2006	EUR	3 440 257.42	4 134 924.78
930480	L731945	28/11/2001	31/01/2006	31/12/2006	EUR	5 844 562.73	7 024 714.82
53408	Y751811	28/01/2005	26/06/2006	31/12/2006	USD	1 750 000.00	1 750 000.00
Total		9 letters of credit				153 403 111.76	

Table 3
Letters of credit not included in the liability report of 31 July 2005

Communication No.	Letter of credit	Expiry date	Currency	Value	US\$ equivalency
1230623	P751204	01/02/2004	EUR	42 657.00	51 270.43
1030629	T737896	12/02/2004	EUR	6 599 819.00	7 932 474.76
1230213	P738715	22/03/2004	EUR	180 823.64	217 336.11
830437	M729219	07/08/2004	EUR	118 016.00	141 846.15
1230593	P751265	05/09/2004	EUR	231 600.00	278 365.38
1030282	T751636	21/09/2004	EUR	9 058 000.00	10 887 019.23
1230265	P738723	23/09/2004	EUR	3 936 147.72	4 730 946.78
631108	Z737898	25/09/2004	EUR	12 958 882.04	15 575 579.38
630745	Z720101	27/09/2004	USD	171 052.73	171 052.73
630961	Z751807	04/10/2004	USD	889 572.00	889 572.00
930603	L733650	31/10/2004	EUR	9 772.73	11 746.07
730993	U737462	17/11/2004	EUR	347 667.68	417 869.81
1230622	P750222	30/11/2004	EUR	14 182.00	17 045.67
1230498	P751739	30/11/2004	EUR	88 582.27	106 469.07
1030405	T737377	30/11/2004	EUR	30 100.00	36 177.88
631157	Z751164	30/11/2004	EUR	3 135 000.00	3 768 028.85
830875	C734978	11/12/2004	EUR	130 107.27	156 378.93
630959	Z751806	13/12/2004	USD	290 000.00	290 000.00
930479	L737706	15/12/2004	EUR	341 472.46	410 423.63
930564	L732564	15/12/2004	EUR	634 197.30	762 256.37
730367	U722343	31/12/2004	USD	886 363.64	886 363.64
1030524	T738836	31/12/2004	EUR	434 424.00	522 144.23

<i>Communication No.</i>	<i>Letter of credit</i>	<i>Expiry date</i>		<i>Currency</i>	<i>Value</i>	<i>US\$ equivalency</i>
630650	Z724362	31/12/2004		USD	416 907.60	416 907.60
1230114	P751638	02/10/2005		EUR	118 750.00	142 728.37
1230157	P751491	20/05/2004	Fully paid	EUR	0.00	-
1230347	P738858	31/12/2004		EUR	60 571.37	72 802.13
830240	C729831	31/12/2004		EUR	416 521.74	500 627.09
1230395	P751719	15/02/2005	Fully paid	EUR	0.00	-
801248	M728191	30/08/2004		USD	147 000.00	147 000.00
1201532	P750004	16/01/2005		EUR	5 040 000.00	6 057 692.31
901366	L731772	27/09/2004		EUR	1 245 101.64	1 496 516.39
900780	L732591	30/09/2004		EUR	2 214 065.02	2 661 135.84
1002154	T736059	03/05/2004		EUR	198 500.00	238 581.73
1100645	V735226	03/05/2004		EUR	236 338.13	284 060.25
1300079	B751068	14/01/2005		EUR	1 917 545.00	2 304 741.59
1030707	T735379	31/12/2004		EUR	15 821.27	19 015.95
1230495	P750674	23/02/2004		EUR	182 593.00	219 462.74
1230296	P738733	14/03/2004		EUR	115 900.00	139 302.88
930479	L737706	15/12/2004		EUR	341 472.46	410 423.63
730966	U737510	21/01/2004		EUR	225 341.30	270 842.91
Total		40 letters of credit				63 642 208.52

Table 4
Request for amendments to the supplier's name and goods

Communication No.	Letter of credit	Issue date	Expiry date	Status	Currency	Value	US\$ equivalency	Reason for amendment
930181	L729782	21/08/2001	05/11/2005	Active	EUR	30 483 545.05	36 638 876.26	The goods in the contract need to be changed from steel plates to pipes because, owing to the situation in Iraq, processing of steel plates to pipes was no longer possible.
900655	L737547	08/10/2002	28/02/2005	Active	EUR	25 973 214.29	31 217 805.64	The contract relates to the Ministry of Education and it is for steel bar reinforcement. The Ministry would now like computer workshops instead of steel bars.
1100581	V734761	08/05/2002	31/03/2005	Active	EUR	28 031 480.00	33 691 682.69	The contract relates to the Ministry of Water Resources. The buyer needs to change the material from hydro-mechanical equipment to equipment used to improve the water stream in rivers and for flood control.
1000600	T732494	13/05/2002	26/03/2005	Active	EUR	21 098 181.82	25 358 391.61	These contracts relate to the Ministry of Trade. The buyer needs to change the type and quantities of the goods to benefit the people's demand for the new items.
1101151	V735707	02/07/2002	11/07/2005	Active	EUR	28 344 545.45	34 067 963.28	
1201434	P750562	07/03/2003	28/02/2005	Active	EUR	7 032 500.00	8 452 524.04	
702374	U737961	15/11/2002	31/10/2005	Active	USD	82 510 511.00	82 510 511.00	This refers to a vital contract for electricity generation, where the originally contracted supplier was unable to deliver. The manufacturer of the equipment, however, is willing to take over the contract and make a direct delivery under the existing terms of the contract.
902035	L735018	18/03/2005	30/03/2005	Active	EUR	368 823.81	443 297.85	The contract relates to the Ministry of Transport. The buyer would like to substitute five excavators from one manufacturer with two excavators from another manufacturer.
Total							252 381 052.37	

8 letters of credit